



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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Comptroller

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September 10, 2015

John Zakibe, Deputy Comptroller
1200 Market Street, Room 311
Saint Louis, MO 63103-2806

RE: Contract Review – Dynamic Vending, Inc. (Project No. 2015-CN14)

Dear Mr. Zakibe:

Internal Audit has completed a contract compliance review of Dynamic Vending, Inc. (Vendor). The Vendor has the exclusive rights to place candy/snack and cold food products and vending machines in City owned locations. Enclosed is the report of our review covering the period March 1, 2007 through December 31, 2014. A description of the scope of our work is included in the report.

Fieldwork was completed on July 29, 2015. Management responses to the observations and recommendations noted in the report were received on September 3, 2015, and have been included in the report.

This review was made under authorization contained in Section 2, Article XV, of the Charter, City of Saint Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 657-3490.

Respectfully,

Mohammad H. Adil, CPA, CGMA
Internal Audit Supervisor

Enclosure:

CC: Judy Armstrong, Executive Assistant II





CITY OF ST. LOUIS

COMPTROLLER'S OFFICE

CONTRACT REVIEW

DYNAMIC VENDING, INC.

MARCH 1, 2007 THROUGH DECEMBER 31, 2014

PROJECT #2015-CN14

DATE ISSUED: SEPTEMBER 10, 2015

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
COMPTROLLER'S OFFICE
CONTRACT REVIEW
DYNAMIC VENDING, INC.
MARCH 1, 2007 THROUGH DECEMBER 31, 2014**

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MARCH 1, 2007 THROUGH DECEMBER 31, 2014**

SUMMARY

Background

The contract was awarded to Dynamic Vending, Inc. (the Vendor) on March 1, 2007 and is still in effect. The contract provided the Vendor exclusive rights to place candy/snack and cold food products and vending machines in City owned locations. The Vendor agreed to pay the City commissions on each sale as follows:

- Candy/snack: 33%, except for the first year of the contract when it was 32%.
- Cold food: 15%.

The Comptroller's Office maintains a list of vending machines by location. Currently there are 41 candy/snack and one (1) cold food vending machines. The total commission received by the City under the contract for the period of the review amounted to \$433,981.60.

Purpose

The purpose of Internal Audit's review was to determine if the Vendor complied with the terms, conditions, and various provisions of the contract.

Scope and Methodology

Inquiries were made and testing procedures were performed regarding the Vendor's compliance with the terms, conditions, and various provisions of the contract. The scope of the review was from March 1, 2007 through December 31, 2014.

Conclusion

The Comptroller's Office did not appear to have an adequate system of internal controls in place to ensure the Vendor's compliance with the contract requirements regarding payment of commissions due the City.

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SUMMARY

Summary of Current Observations

We noted the following observations:

1. Unpaid Commissions on Cold Food Sales (\$6,603.68)
2. Underpayment of Commissions on Candy/Snack Sales (\$11,785.83)
3. Prevailing Wage Rate

These observations are discussed in more detail in the *Detailed Observations and Recommendations* section of this report.

Management Response

An exit conference was conducted with the Vendor on August 11, 2015. In attendance from the Vendor were the President and Accountant. The Comptroller's Office was represented by the Executive Assistant II and the Internal Audit Supervisor.

The report observations and recommendations were discussed in detail at the exit conference.

The Vendor subsequently provided the written responses to Internal Audit on September 3, 2015, which have been incorporated in this report.

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

1. Unpaid Commissions on Cold Food Sales (\$6,603.68)

The contract provided for the Vendor to pay the City a commission of 15% on each cold food item sold at the Justice Center, payable on a monthly basis.

We found that the Vendor did not pay the City any commission on cold food sales for the period March 1, 2007 through June 30, 2013 and overpaid for the remaining review period by paying commission at the rate of 32% instead of 15% (overpayment of 17%).

Based on the above, the total unpaid commissions on cold food sales for the period of the review amounted to \$6,603.68 as follows:

Cold food sales through June 30, 2013	<u>\$56,659.15</u>
Unpaid Commission thereon at the rate of 15%	<u>\$8,498.87</u>
Less: overpaid commission for the remaining review period (17% on sales of \$11,148.19)	<u>\$(1,895.19)</u>
Unpaid Commission	<u>\$6,603.68</u>

Recommendation

Internal Audit recommends that the Comptroller's Office:

- Seek recovery from the Vendor for the unpaid commissions of \$6,603.68.
- Consider pursuing recovery from the Vendor of the 2% monthly service charge on unpaid commissions as provided for in the contract agreement.
- Establish and implement a system of internal control to ensure that all commissions due the City are calculated correctly and paid by the due date.

Management Response

After reviewing this finding with Dynamic Vending, Inc., they are in agreement. This was an oversight in their accounting department. Dynamic Vending, Inc. has made the necessary changes to ensure that this will not happen again.

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

We will submit an invoice to Dynamic Vending, Inc. for the \$6,603.68 and will waive the 2% monthly service charge. We will monitor all accounts to ensure that commissions are being paid in accordance with the contract percentage rates.

2. Underpayment of Commissions on Candy/Snack Sales (\$11,785.83)

The contract required the Vendor to pay a commission to the City at the rate of 32% on each item of candy/snack sold in the first year (calendar year 2007) of the contract and 33% thereafter for the remaining period of the contract. The contract further provided that all unpaid commissions due the City would incur a service charge of 2% per month if not received by the City on or before the thirtieth (30th) of the month in which payments were due.

However, we noted that the Vendor had continued to pay commissions at the rate of 32% after the first year of the contract instead of 33%, as required by the contract. This has resulted in an underpayment of commissions, excluding service charge, to the City by \$11,785.83 as of December 31, 2014 as follows:

Sales for the review period per vendor report	\$1,178,582.56
Underpaid commission %	x 1%
Underpaid commission	\$11,785.83

Recommendation

Internal Audit recommends that the Comptroller's Office

- Seek recovery from the Vendor of the underpaid commissions of \$11,785.83 (through December 2014) plus additional commissions on Snacks and candy sales earned since the period of this review.
- Consider pursuing recovery from the Vendor of the 2% monthly service charge on underpaid commissions.
- Establish and implement a system of internal control to ensure that all commissions due the City are calculated correctly and paid by the due date.

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

Management Response

After reviewing this finding with Dynamic Vending, Inc., they are in agreement. This was an oversight in their accounting department because of the commission rate changing after the first year. Dynamic has made the necessary changes to ensure that this will not happen again.

We will submit an invoice to Dynamic for the \$11,785.83 and will waive the 2% monthly service charge. We will monitor all accounts to ensure that commission rates are being paid in accordance with the contract percentage rate.

3. Prevailing Wage Rate

The contract agreement did not include provisions requiring the Vendor to pay its employees the minimum prevailing wage as required by St. Louis City Revised Code 6.20.020.

Recommendation

It is recommended that the Comptroller's Office ensure that the City's minimum wage rate provisions are included in all future contracts.

Management Response

The Comptroller's Office will verify that the City's minimum wage rate statement is included in all future contracts.